« To be an organization that makes informed, timely decisions, applies efficient regulatory approaches, and supports the smooth operation of the Québec energy markets under its jurisdiction. »

RÉGIE DE L'ÉNERGIE

2003-2004 ANNUAL REPORT

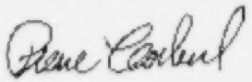
Québec

Mr. Michel Bissonnet
President of the National Assembly
Parliament Building, Québec City

Mr. President,

I am pleased to table the following report on the activities of the Régie de l'énergie for the year 2003-2004.

Sincerely yours,



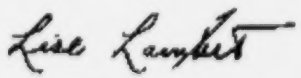
PIERRE CORBEIL
Minister of Natural Resources, Wildlife and Parks
Québec, June, 2004

Mr. Pierre Corbeil
Minister of Natural Resources
Minister responsible for Forest, Wildlife and Park

Mr. Minister,

I have the pleasure of sending you the present report on the activities of the Régie de l'énergie for the year 2003-2004.

Sincerely yours,



LISE LAMBERT
Chairperson
Montréal, June, 2004

TABLE OF CONTENTS

02 Message from the Chair
06 Review of activities
09 Petroleum products
10 Issues 2004-2005
11 Client relations
12 Role and powers
13 The Régie team
14 Compliance with acts and regulations
15 Public participation
16 Financial summary

106-02068/

The Régie de l'énergie is an economic regulation agency. Its mission is to reconcile the public interest, consumer protection and the fair treatment of the electricity carrier and the distributors. The Régie strives to ensure that energy needs are satisfied while promoting sustainable development as well as individual and collective equity.

To this end, the Régie fixes and modifies the rates and conditions for the transmission of electric power by the electricity carrier, the distribution of electric power by the electricity distributor, and the supply, transmission, delivery and storage of natural gas by the natural gas distributors. In fixing and modifying rates, the Régie favours the use of incentives to improve the performance of the electricity carrier, the electricity distributor and the natural gas distributors, and to promote the satisfaction of consumer needs.

The Régie examines consumer complaints about decisions rendered by the electricity carrier, the electricity distributors or a natural gas distributor concerning the application of the rates or conditions of service. The Régie also monitors the prices of petroleum products and steam.

MESSAGE FROM THE CHAIR

MARKET ENVIRONMENT

Growing global energy needs and the tense international geopolitical situation created an oil and natural gas supply squeeze during the past year, resulting in high and volatile energy prices. The price of crude rose to record highs, climbing above US$40 per barrel for Brent at the beginning of March 2004. Canadian natural gas prices were also high throughout the year reaching $6.65/GJ in January 2004 compared with $6.28/GJ at the same time in the previous year.

Electric power transmission systems in North America and Europe suffered major failures in 2003, including a massive blackout that left more than 50 million people in the Northeastern US and Ontario in the dark on August 14, 2003. The event underscored the fragility and interdependence of transmission systems and demonstrated the importance of maintaining them at optimal reliability levels.

These recent developments turned the spotlight on social choices that directly concern regulators. In particular, how can reasonable levels of investment be maintained in order to ensure the long-term development of power grids without unduly affecting rates?

In Québec, economic conditions remained favourable during the year but consumers were adversely affected by price hikes and fluctuations, particularly for petroleum products. In May 2004, the price of gasoline hit $1 per litre. The strong economy also forced the electric power distributor to meet new demand, in excess of the heritage electricity pool of 165 TWh, at market prices.

REGULATORY ENVIRONMENT

In view of the growing impact on energy pricing and availability of global factors that cross national and regional boundaries, the energy regulator's role - reconciling the public interest, consumer protection and fair treatment of regulated companies - is becoming increasingly complex.

In Québec, the acts and regulations governing energy regulation are now fully in effect and the regulator has assumed responsibility for reconciling those interests in the area of electric power in addition to natural gas. The Régie has made decisions stipulating regulatory principles for electric power transmission and distribution, based on the technical and legal parameters set out in the *Act respecting the Régie de l'énergie*. This regulatory framework ensures the predictability of the Régie's decisions on rate applications and capital expenditures related to electric power systems.

Working on the basis of these stable, clearly defined foundations, the Régie is pursuing its goal of making timely decisions and meeting the legitimate expectations of the public and the regulated companies.

REVIEW OF ACTIVITIES

During the year, the Régie published its *Plan stratégique - Horizon 2006* on its website. The strategic plan defines the Régie's vision - "*to be an organization that makes informed, timely decisions, applies efficient regulatory approaches, and supports the smooth operation of the Québec energy markets under its jurisdiction*" - and will underpin its activities. As part of the process, the Régie has adopted concrete strategic approaches that address the major challenges facing regulators. They call for results-based management using performance indicators.

The Régie continued its ongoing efforts to streamline the regulatory process. To promote more effective participation by intervenors, it published a new *Intervenor Costs Payment Guide*. The Régie considers stakeholder involvement to be vital, since it relies on input from the parties - applicants and intervenors - for its decisions and opinions.

The Régie is pursuing its goal of making timely decisions and meeting the legitimate expectations of the public and the regulated companies.

THE CHAIRPERSON, MS LISE LAMBERT

The National Assembly has empowered the Régie to grant intervenors in its proceedings reimbursement of expenses as a means of providing financial support for their participation.

The Régie also continued its dialogue with clients by holding annual meetings to discuss their concerns and expectations, and explore possible improvements. It conducted an online poll concerning its revamped *Bulletin d'information sur les prix des produits pétroliers au Québec* in order to survey users' reactions.

The Régie had a busy year on the regulatory front. It handed down a number of important decisions, including one fixing electric power rates for all Québec consumers as of January 2004. It was the first decision of its kind by an independent economic regulator in Québec. The provisions of the Act, including the determination of the cost of service and the consequent fixing of rates, were rigorously applied.

Despite its busy regulatory calendar, the Régie rendered its regulatory decisions within the required timeframe and avoided fixing rates retroactively, a key objective in economic regulation.

The Régie's activities over the last year are described in greater detail in the other sections of this Annual Report.

OUTLOOK FOR 2004-2005

The Régie's agenda will continue to be busy in the coming months. On June 30, 2004, it will submit an opinion on Québec's energy security and the need for the Le Suroît project to the Minister of Natural Resources, Wildlife and Parks. It will also submit to the Minister its report on the impact of its regulation of prices and business practices in the gasoline and diesel fuel retail trade in Québec.

With respect to electric power, the Régie will study an upcoming application from Hydro-Québec Distribution for rate adjustments for 2005-2006 and will review the rate structures and cost of service for the distribution operation. It will also review certain conditions of service.

With respect to electric power supply, the Régie will be asked to approve the distributor's 2005-2014 supply plan. It will consider the inclusion of a sustainable development criterion in tender solicitations. It will continue monitoring tender solicitations and will consider approving any resulting contracts required to meet electricity needs in excess of the heritage electricity pool. The Régie also expects to issue a decision on an electricity supply framework agreement between the distributor and Hydro-Québec's generation division covering fluctuations in demand for electric power.

Regarding energy efficiency, the Régie will rule on the distributor's proposed 2005 budget for the comprehensive energy efficiency plan.

The Régie will also study an application concerning the determination of Hydro-Québec's cost of service, as a power carrier, and changes to the transmission rates that have been in effect since 2001. The Régie expects to address cost allocation, the discount policy, and a faster complaints procedure for the carrier.

The Régie will also deal with applications for authorization of the electricity carrier's and distributor's capital expenditures related to regulated operations. Finally, the Régie will continue monitoring the carrier's and distributor's operations on an ongoing basis.

With respect to natural gas, the Régie will set the distributors' rates and continue its review of conditions of service for customers.

In the specific case of Gazifère, the Régie intends to review the application of incentive mechanisms designed to promote performance improvements and the satisfaction of consumer needs.

In the case of Gaz Métro, the Régie expects to rule on an application for approval of a liquefied natural gas supply contract.

The Régie will also be asked to authorize the natural gas distributors' capital expenditure plans.

To handle complaints from consumers of both natural gas and electricity, the Régie is introducing a new fast, simple conciliation process in the coming year to promote win-win solutions in disputes between distributors and customers. The new approach responds to consumers' desire for easier access to justice and fewer legal formalities.

In a fast-changing economic landscape, a modern regulatory framework that allows informed, timely decisions is needed.

Finally, in the area of petroleum products, the Régie will continue monitoring prices and price fluctuations in order to inform consumers on an ongoing basis.

As for administrative practices, the Régie will launch or continue a number of initiatives designed to increase its efficiency.

When it comes to communications, the Régie is aware of the impact of its work on Québec society and the need to ensure that its role and decisions are properly understood. It must constantly balance its duty to inform the public with its responsibility, as a tribunal, to exercise discretion, which is vital for the credibility of the regulatory process and of the Régie's decisions. To fulfil both responsibilities, the Régie has adopted a policy of transparency in its regulatory activities and is forthcoming with information in response to the thousands of inquiries it receives from consumers and the media every year.

To maintain its transparency and provide ready access to information, the Régie constantly upgrades its website, a pacesetter among the online services of administrative tribunals. It includes an online clerk's office and carries webcasts of hearings to help participants increase the effectiveness of their work.

As an economic regulator with a range of responsibilities, the Régie must use consultation processes that are appropriate to the case at hand and to the powers it is exercising. Changes in the economy make this type of flexibility necessary. Economic cycles are growing shorter and shorter, which means that any undue delay can have an immediate impact on consumers. The new *Rules of Procedure* slated to come into effect this year will modernize the process and make it more suitable to the new regulatory environment.

A MODERN APPROACH TO REGULATION

In a fast-changing economic landscape, a modern regulatory framework that allows informed, timely decisions is needed. The Régie fully embraces the pursuit of regulatory efficiency. The approaches set out in its strategic plan promise to keep it at the forefront of regulatory agencies in this respect.

The Régie continued the process of laying solid foundations for electricity regulation. Its long-term goal is to introduce incentive regulation for electric power to promote improved performance by the monopoly operators and the satisfaction of consumer needs.

Experience with natural gas regulation has shown that negotiated agreement processes can also be an effective means for distributors and intervenors to propose solutions that are better suited to their needs and to exert greater control over outcomes. This method springs from a consensus approach in which consumers and distributors seek mutual benefit instead of taking an adversarial stance. However, the Régie retains ultimate decision-making authority and ensures that the public interest is also taken into account.

It is clear that Québec faces important social choices at this juncture, particularly with respect to electric power generation. There is keen public interest in these issues. Citizens want full and objective information and active input into the debate, as the extent of public participation in our recent hearings on energy security demonstrates. On this latter issue, the Régie's challenge is to submit a consultative opinion that will be useful to the public and the government.

ACKNOWLEDGEMENTS

The Régie owes the achievements of the past year to the skills and dynamism of its staff and consistent cooperation from intervenors and the regulated companies.

In conclusion, I would like to mention the valuable contribution of all the commissioners and the Régie's staff to the demanding strategic planning process. It was a genuine team effort and the results will guide all of the Régie's actions in the future.

LISE LAMBERT
Chairperson
June 2004

REVIEW OF ACTIVITIES

2003-2004 SUMMARY OF ACTIVITIES

Applications	18
Consumer complaints	148
Days of hearings • 28 on complaints • 31 on applications	59
Technical meetings	4
Preparatory meetings	1
Information sessions	1
Working meetings	1
Decisions • 159 on complaints • 87 on applications	246

2003-2004 SUMMARY OF ACTIVITIES

In its work, the Régie strives to provide forward-looking regulation and monitoring services of the highest calibre. Active participation by a wide range of stakeholders helps the Régie make informed decisions which ensure that energy needs are satisfied while promoting sustainable development and respecting principles of individual and collective equity.

During the past year 18 applications were filed with the Régie de l'énergie. The Régie held 59 days of hearings, one preparatory meeting and six working sessions (technical meetings, information sessions, working meetings).

The Régie rendered 246 decisions during the year, many of which were important for all Quebecers. Through its rate decisions, authorization of capital expenditures and monitoring of the operations of the companies under its jurisdiction, the Régie de l'énergie ensures that the rates paid are fair and reasonable, that customer satisfaction is as high as possible, and that the companies are managed in an effective manner.

By reconciling the interests of the regulated companies with the interests of consumers, while safeguarding the public interest, the Régie ensures that energy markets operate effectively. In the performance of its mission, it is guided by the principles of sustainable development.

All regulatory decisions were made within the timeframes the Regie has set with a view to satisfying the needs of consumers and industry, a core objective of economic regulation.

THE RÉGIE IS IN DAILY CONTACT WITH CONSUMERS

During the year, the Régie responded to nearly 4,000 enquiries from electricity and natural gas consumers concerning the distributors' complaint procedures. Its website received thousands of visits every month and there were nearly 400 subscribers to its weekly e-mail news service. The Régie also answered more than 800 calls from the media on a variety of issues.

INTERVENOR COSTS

Following the hearing on intervenor costs initiated in January 2003, the Régie approved a new *Intervenor Costs Payment Guide* on October 2, 2003. The new Guide and forms have been in effect since that date.

ELECTRICITY

ELECTRICITY DISTRIBUTION

The Régie completed its review of the electric power distributor's first rate proposal. It determined the rate of return, the revenue requirement and the capital expenditures needed to deliver the service.

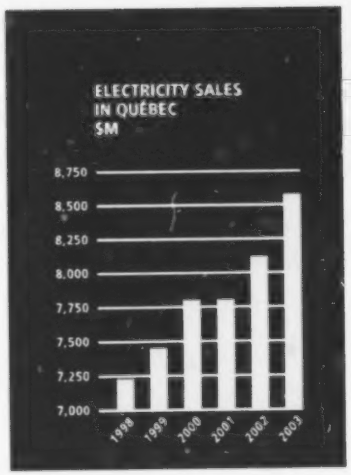
After public hearings in which 18 intervenors representing consumers' associations, industry, and social and environmental groups took part, the Régie denied a request for a provisional rate increase as of October 1, 2003. It considered the distributor's application for increases of 3.0% and 2.9% as of January 1 and April 1, 2004 respectively, and authorized uniform rate increases of 3.0% as of January 1, 2004 and 1.41% as of April 1, 2004. The distributor's total revenue requirement for 2004 is $9.1 billion. Its rate base, which is the value of the assets needed to deliver the service, is $8.4 billion.

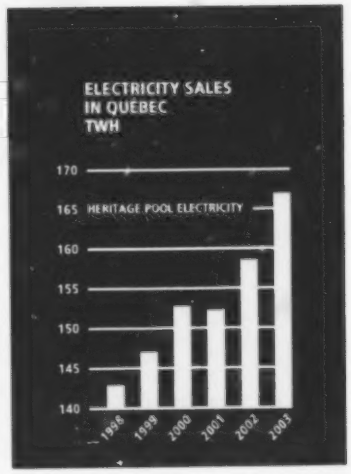
The Régie also approved rate conditions for an interruptible power option for industrial customers.

In addition, the Régie approved in full the distributor's application for implementation of the 2003-2006 comprehensive energy efficiency plan. The program calls for investments totalling $232 million by consumers and the distributor in order to achieve energy savings of 0.75 TWh. The Régie encouraged the distributor to exceed this target. The program's budget for 2004 is $41 million.

Pursuant to its mandate to monitor tender solicitations and approve contracts awarded to satisfy the distributor's needs in excess of the heritage electricity pool of 165 TWh, the Régie approved the contracts submitted by the distributor following the first tender solicitation. It also authorized the addition of certain terms and conditions to the proposal selection procedure and changes to the evaluation scale and criteria applied to proposals submitted in response to solicitations published pursuant to the *Regulation respecting wind energy and biomass energy*.

The Régie authorized the distributor to make capital expenditures totalling $1.0535 billion.





SOURCE: HYDRO-QUÉBEC, 2003 ANNUAL REPORT

ELECTRICITY TRANSMISSION

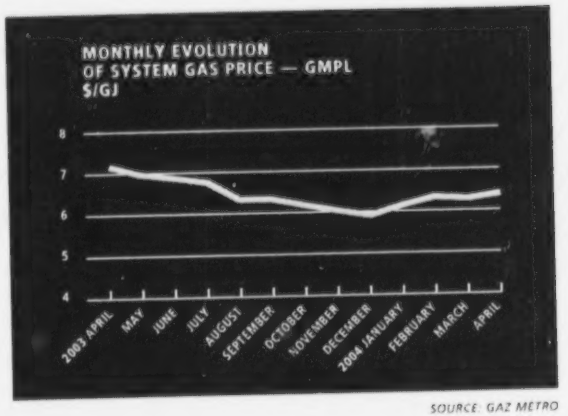
The Régie approved the electric power carrier's capital expenditures for projects related to power transmission with an individual cost under $25 million. It also authorized construction of a transmission line to connect the Toulnustouc power plant to the grid and a joint project by the carrier and the distributor to connect the Cree village of Waskaganish to the grid. It began studying the carrier's application for a de-icer project at the Lévis substation and its application for the acquisition and construction of transmission-related immovables and assets required to connect the Eastmain-1 power station to the grid.

The Régie followed up on past decisions by continuing its examination of certain aspects of the carrier's rates. It carried out an inspection of the carrier's *Open-Access Same Time Information System* (OASIS) site and exercised its authority to monitor the carrier's operations by means of the filing of its annual report.

The Régie authorized the carrier to make capital expenditures totalling $460.5 million.

OPINION FOR THE MINISTER

On February 9, 2004, the Régie received, pursuant to its mandate to provide advice, a request from the Minister of Natural Resources, Wildlife and Parks for an opinion concerning Québec's security of electricity supply and the need for the Le Suroît project. The Régie's opinion will be submitted by June 30, 2004, following an extensive public consultation.



SOURCE: GAZ MÉTRO

NATURAL GAS

In the area of natural gas, the Régie authorized a 2% increase in the rates of Gaz Métro Limited Partnership (GMLP) as of October 1, 2003. A negotiated agreement process was used in this case. The two-day hearing was preceded by numerous working meetings between the parties, in accordance with the Régie's commitment to regulatory streamlining.

The Régie also rendered a decision on its review of the performance incentive mechanism for GMLP for the 2005-2009 period and provided guidance for work on the review of GMLP's rate structure with a view to promoting energy efficiency.

The Régie approved capital expenditures by GMLP, including the acquisition of business offices in the Montérégie, Laurentians and Eastern Montréal areas, and the migration of GMLP's computer systems.

The Régie made a decision that had the effect of reducing the rates of Gazifere Inc. by 0.6% during the year beginning October 1, 2003.

The Régie undertook a study of the conditions of service of the two natural gas distributors, as it did in the case of electricity, in order to offer consumers standard contracts.

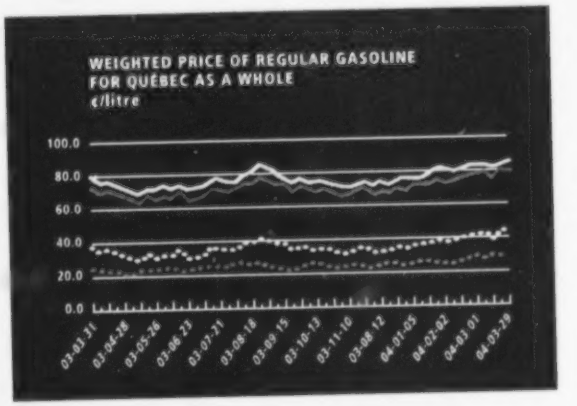
The Régie monitored the price the natural gas distributors charge consumers of system gas on an ongoing basis.

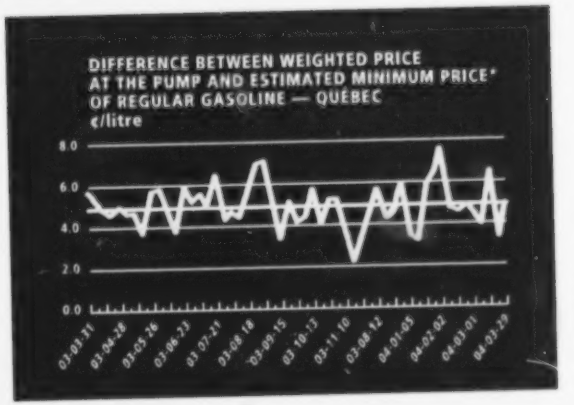
The Régie authorized the natural gas distributors to make capital expenditures totalling $119.4 million.

PETROLEUM PRODUCTS

In accordance with the Act, the Régie determined an amount per litre for gasoline stations' operating expenses. The amount remains at 3¢ for the next three-year period, i.e. until July 2006. At the request of an independent retailer, the Régie made a decision on the inclusion of operating expenses in the estimated minimum price for the town of Saint-Jérôme. It also continued monitoring petroleum product prices and published the results every week in its *Bulletin d'information sur les prix des produits pétroliers au Québec*.

SOURCE: RÉGIE DE L'ÉNERGIE





PETROLEUM PRODUCTS

The geopolitical situation and growing global energy demand continued exerting a powerful influence on petroleum product prices. Prices for gasoline, diesel fuel and light fuel oil fluctuated widely in 2003-2004.

The Régie monitors petroleum product prices in Québec's 17 administrative regions, compiles the results, and makes them available to interested persons. It also calculates the estimated minimum price of gasoline and diesel fuel, based primarily on fluctuations in the wholesale price at the loading ramp in Montréal, on a weekly basis.

The Régie's *Bulletin d'information sur les prix des produits petroliers au Québec*, a weekly report which has become the standard source on petroleum product prices in Québec, is posted on the Régie's website every week. The Régie also responds to daily calls from consumers, industry and the media.

To meet the needs of consumers and industry, the Régie conducted a survey of readers of its Bulletin. The satisfaction rate was 82%. The content of the Bulletin has been simplified to make it easier to read.

OVERVIEW OF PRICES

REGULAR GAS

From April 1, 2003 to March 31, 2004, the weighted average price of regular gasoline at the pump for Québec as a whole was 76.1¢/litre, compared with 76.0¢/litre during the previous year.

WEIGHTED RETAIL PRICE

- Low: 68.6¢/litre during the week of May 12, 2003
- Peak: 84.9¢/litre during the week of August 25, 2003

During the same period, the average weekly minimum price at the loading ramp in Montréal (the refinery price) moved in tandem with the price at New York.

PRICE AT THE LOADING RAMP

- Low: 29.5¢/litre during the week of May 12, 2003
- Peak: 43.6¢/litre during the week of March 22, 2004

The price fluctuations at the loading ramp were reflected in the estimated minimum price, which is composed of the minimum price at the ramp, average minimum transport costs, and applicable taxes.

ESTIMATED MINIMUM PRICE

- Low: 63.3¢/litre during the week of May 12, 2003
- Peak: 79.6¢/litre during the week of March 22, 2004

The average spread between the weighted retail price of regular gasoline, before taxes, and the estimated minimum price was 4.9¢/litre during the period of April 1, 2003 to March 31, 2004, compared with 4.7¢/litre during the same period of the previous year.

LIGHT FUEL OIL

The weighted average price of light fuel oil in Québec as a whole was 46.2¢/litre, a 3¢/litre decrease from the previous year.

WEIGHTED PRICE

- Low: 41.4¢/litre during the week of October 10, 2003
- Peak: 53.2¢/litre during the week of March 31, 2003

DIESEL FUEL

The weighted average price of diesel fuel was 72.0¢/litre in 2003-2004, an increase of more than 1.9¢/litre from the previous year.

WEIGHTED RETAIL PRICE

- Low: 66.2¢/litre during the week of September 29, 2003
- Peak: 81.5¢/litre during the week of February 23, 2004

ISSUES FOR 2004-2005

ELECTRICITY

TRANSMISSION

- Application concerning the determination of the carrier's cost of service and changes to its transmission rates
- Application for approval of the carrier's code of conduct
- Application for approval of transmission system reliability standards
- Applications for approval of capital expenditures related to transmission operations

DISTRIBUTION

- Application for changes to the distributor's rates
- Application for changes to certain Hydro-Québec electrical service conditions and related expenses
- Application concerning the commercial, institutional and industrial dual-energy rate (Rate BT)
- Application for approval of the 2005-2014 supply plan
- Application for approval of a sustainable development criterion for inclusion in the proposal evaluation scale
- Application for approval of framework agreement between Hydro-Québec Distribution and Hydro-Québec Generation for supplies to cover unexpected weather conditions and delivery imbalance
- Applications for approval of capital expenditures related to distribution operations
- Application for approval of budgets for comprehensive energy efficiency plan
- Monitoring of the distributor's tender solicitations, including calls for tenders for wind energy, biomass energy and short-term energy
- Application for approval of supply contracts
- General review of independent systems (energy efficiency, commercial programs)

ADMINISTRATIVE FOLLOW-UP

- Annual reports from the electric power carrier and distributor
- Follow-up on supply plan
- Request from the Minister of Natural Resources, Wildlife and Parks for an opinion on Québec's security of electricity supply and the need for the Le Suroit project

NATURAL GAS

- Review of gas distributors' conditions of service

GAZ MÉTRO LIMITED PARTNERSHIP (GMLP)

- Application for changes to the rates of Gaz Métro Limited Partnership (GMLP) as of October 1, 2004
- Application for approval of supply plan
- Applications for authorization of capital expenditures
- Application for approval of a liquefied natural gas supply contract

GAZIFÈRE INC.

- Application for changes to rates as of October 1, 2004
- Review of incentive mechanism
- Applications for authorization of capital expenditures
- Application for approval of supply plan

ADMINISTRATIVE FOLLOW-UP

- Monthly check of price GMLP charges system gas customers for gas supply service
- Application for approval of rate adjustments made during the year as a result of decisions by other competent authorities concerning GMLP and Gazifère Inc.

PETROLEUM PRODUCTS

- Report to the Minister on the impact of the Régie's exercise of its authority over gasoline and diesel fuel retail prices and commercial practices
- Monitoring of petroleum product prices and weekly publication of the *Bulletin d'information sur les prix des produits pétroliers au Québec*

CLIENT RELATIONS

THE RÉGIE LISTENS TO ITS CLIENTS

The Régie holds yearly meetings with persons who represent the interests of residential, commercial, institutional and industrial consumers, environmental groups, the electric power carrier, and the distributors of electricity and natural gas. At these meetings, the Régie's Chair and directors listen to clients' comments, concerns and suggestions and subsequently strive to respond to their needs.

ONLINE CLERK'S OFFICE

A MORE EFFICIENT CHANNEL OF COMMUNICATION

The Régie's revamped website is updated in real time to provide access to all public documents related to past and current applications and to transcripts of hearings. An advanced search engine helps users find what they need among the 6,500 available documents. Recent developments in current cases are posted in the *What's New* section. Pages from the section on petroleum product prices are e-mailed to interested persons who subscribe to the service.

The Regie has also started using e-mail on a regular basis to communicate with participants in its hearings. The relevant documentation is sent as attachments.

One important feature of the site is that it lets participants in cases before the Régie consult the electronic versions of all documents related to the hearings. In a move towards paperless proceedings, the Régie has started making internet connections available to participants in the hearing room. As a result, clients no longer need to carry around thousands of pages of documentation. The Régie also recently began providing live access to its hearings through real-time webcasts.

The technological advances and new ways of doing things were welcomed by participants. Continuous improvement of the Régie's website and means of communication made its work more accessible to participants and the general public. Weekly publication of the Régie's *Bulletin d'information sur les prix des produits pétroliers au Québec* also helped make its website a source of reference that is frequently consulted by the public and the media.

CONCILIATION, AN ALTERNATIVE DISPUTE SETTLEMENT METHOD

The Régie discussed with the distributors the creation of a conciliation service for dealing with consumer complaints. The service will be phased in gradually. It will promote better communication between the parties in an atmosphere of mutual understanding and respect in order to help them reach a satisfactory settlement to their dispute.

OTHER SERVICES FOR CONSUMERS

Detailed information on the complaints procedure for consumers of electricity and natural gas can be accessed directly from the home page of the Régie's website. Consumers can also call the Régie's information line. Calls are answered within one minute.

The Régie recently published a brochure for consumers who want to complain about a decision made by their electricity or natural gas distributor. It explains the Régie's complaints procedure in plain language in order to help consumers understand and prepare for the process. The brochure is posted on the website and is being provided to consumers who file complaints with the Régie against their distributor.

ROLE AND POWERS

The Régie de l'énergie is a multi-functional economic regulation agency with administrative and quasi-judicial functions. The role of the Régie de l'énergie is to regulate monopolies in electricity transmission, electricity distribution and natural gas distribution. It also monitors non-monopoly markets to ensure that the free market system benefits consumers, while permitting healthy competition between market players.

The Régie has authority to fix the rates and conditions for the transmission and distribution of electric power and the supply, transmission, delivery and storage of natural gas, after holding public hearings.

It also monitors the operations of electricity and natural gas distributors to ascertain that consumers are adequately supplied, and monitors the operations of the electricity carrier, the electricity distributors and the natural gas distributors to ascertain that consumers are charged fair and reasonable rates. It approves the electricity and natural gas distributors' supply plans and commercial programs. The Régie also approves investment projects, the construction of immovables or the acquisition of assets intended for the transmission or distribution of electric power or the distribution of natural gas. It approves the electricity carrier's operating and technical standards, including transmission network reliability standards.

The Régie monitors application of the tender solicitation and contract awarding procedure and code of ethics for the electricity distributor's supply contracts. The resulting supply contracts are submitted to the Régie for approval.

The *Act respecting the Régie de l'énergie* gives Hydro-Québec the exclusive right to distribute electricity throughout the territory of Québec, excluding the territories served by a distributor operating a municipal, cooperative or private electric power system. Municipal systems also have exclusive distribution rights within the territories they serve.

The Régie has sole authority to examine consumer complaints about a decision rendered by the electricity carrier, an electricity distributor or a natural gas distributor concerning the application of the rates or conditions of service. The carrier and distributors are required to apply an internal complaint examination procedure approved by the Régie.

The Régie also has the power to monitor petroleum product prices and can provide consumers with information in this regard.

With respect to gasoline and diesel fuel, the Régie has the authority to determine, every three years, an amount per litre representing the operating costs borne by a gasoline or diesel fuel retailer, and to assess the expediency of excluding the amount from or including the amount in the operating costs borne by a retailer.

	RATE-FIXING		PRICE-MONITORING
	ELECTRICITY	NATURAL GAS	PETROLEUM PRODUCTS
SUPPLY	< = 165 tWh at 2.79¢ / kWh > 165 tWh : call for tenders	Free market	Free market
TRANSMISSION	Cost of service	National Energy Board (federal)	Other jurisdictions
DISTRIBUTION	Cost of service	Incentive-based mechanisms	Operating costs and expediency of inclusion
COMPLAINTS	Decision-making authority	Decision-making authority	No authority

THE RÉGIE TEAM

A POOL OF EXPERTISE

The Régie is an economic regulation agency with a variety of functions. To analyze the applications and evidence brought before it, it requires specialized knowledge and expertise of energy-related matters. Its commissioners and staff are experts on energy and economic regulation who have been selected on the basis of the quality and relevance of their experience and training.

Engineers, accountants, economists, lawyers and other professionals analyze and monitor cases related to natural gas, electricity and petroleum products on a daily basis. A support team helps manage cases and respond to the citizens who use the Régie's services. Since their expertise must be kept up-to-date, the Régie promotes training for its people and makes sure they are kept abreast of regulatory and technical developments.

The Régie de l'énergie is composed of 10 commissioners, including 3 supernumerary commissioners. A team of 65 managers, professionals and support staff provides the commissioners with analyses, legal opinions and follow-up on files.

COMMISSIONERS, LEFT TO RIGHT:
NORMAND BERGERON, MARC-ANDRÉ PATOINE, BENOÎT PEPIN, ANITA CÔTÉ-VERHAAR, MICHEL HARDY,
LISE LAMBERT, FRANÇOIS TANGUAY, FRANCINE ROY, ANTHONY FRAYNE, JEAN-NOËL VALLIÈRE

OPERATIONS

The Chairperson of the Régie, who also sits as a commissioner, assigns and coordinates the work of the commissioners. She is responsible for the Régie's administration and directs its staff. She launches appropriate investigations and inspections under the Act. She is assisted by an Executive Assistant and a support team.

The Management Committee consists of eight managers: the Chairperson of the Régie, the Vice-Chairman, the Secretary, the Executive Director, the Director of Legal Services, the Director of Administrative Services, the Communications Director, and the Executive Assistant to the Chairperson. The Committee discusses the Régie's administrative affairs, including the allocation of resources to various operations. The Committee also monitors administrative and financial matters.

The Committee of Commissioners, composed of all the commissioners, meets to discuss the Régie's general approaches and to coordinate the regulatory agenda.

ADMINISTRATIVE STRUCTURE

The Régie has a streamlined structure composed of the Chairperson 's Office and four departments. The majority of the Régie's employees work at the head office in Montréal, where most activities and hearings take place. The Régie also has an office in Québec City to serve clients in the Québec City area and Eastern Québec.

COMPLIANCE WITH ACTS AND REGULATIONS

As a public agency, the Régie de l'énergie is required to comply with a number of acts and regulations, including those that relate to ethics. The *Act respecting the ministère du Conseil exécutif* stipulates that the régie's code of ethics and professional conduct, adopted pursuant to the Regulation respecting the ethics and professional conduct of public office holders (g.o. ii, 6635), is to be published in its annual report.

RÉGIE DE L'ÉNERGIE COMMISSIONERS' CODE OF ETHICS

1. GENERAL PRINCIPLES – Commissioners shall at all times conduct themselves with loyalty and dignity, demonstrate reserve, and abstain from any statement or action that is incompatible with their duties. In the performance of their mandate, commissioners shall promote the satisfaction of Québec's energy needs in accordance with the principles of sustainable development and with attention to economic, social and environmental concerns. They shall also reconcile the public interest, consumer protection and equitable treatment of distributors.

2. IMPARTIALITY – Commissioners shall demonstrate impartiality at all times. They shall act and be seen to act objectively and without prejudice. They shall abstain from expressing in public any opinions that might cast doubt on their objectivity or impartiality, or that of the Régie.

3. INDEPENDENCE – Commissioners shall at all times defend the independence of their office. They shall perform their duties free of all interference. They shall avoid placing themselves in a vulnerable position.

4. POLITICAL NEUTRALITY – Commissioners shall set aside their personal political opinions so as to perform their duties with due objectivity. Commissioners shall exercise reserve in the public expression of their political opinions and shall not belong to any advocacy group that takes positions on energy-related matters.

5. CONFLICTS OF INTEREST – Commissioners shall avoid placing themselves in a position of conflict of interest. They shall arrange their personal affairs so as not to interfere with the performance of their duties. They shall not use the power of their position to obtain or grant any benefit or favour. Commissioners shall have no interest, direct or indirect, in any company that produces, transports, distributes or supplies energy, or in any organization, association or undertaking an interest which would create a conflict between their personal interests and the duties of their position.

6. DECLARATION OF INTERESTS – Each Commissioner shall submit an annual written declaration to the Chairman of the Régie stating all the interests he or she possesses which he or she believes could create a conflict of interest.

7. RECUSAL – Commissioners shall recuse themselves from any deliberations in which their ability to deal impartially with the application under consideration could be in doubt. A commissioner shall bring any situation which he or she deems to be problematic to the attention of the Chairman of the Régie.

8. CONFIDENTIALITY – Commissioners shall swear an oath of confidentiality upon entering upon their duties. Commissioners shall abstain from making any comment or taking any public position on any file, whether or not they are personally responsible for that file, and shall express their points of view only through the decisions rendered by the Régie. Commissioners shall at all times respect the confidentiality of the documents and information to which they are made privy in the performance of their duties and may not use them for personal ends.

9. DUTY TO ACT WITH EQUITY – At hearings and in examining applications, commissioners shall ensure that all participants have the opportunity to be heard and to make their arguments, insofar as those arguments are admissible and relevant. At hearings, commissioners shall maintain order, taking a firm but courteous attitude which fosters mutual respect among all present.

10. COLLEGIALITY – Each commissioner shall provide his or her colleagues with appropriate support, while respecting the areas of competence of each. Commissioners shall strive to ensure that the decisions rendered by the Régie are consistent, so that all intervenors who appear before the Régie receive equitable treatment.

11. EXCELLENCE – Commissioners shall keep their professional skills and knowledge current so as to maintain the quality of their work.

12. DILIGENCE – Commissioners shall render written, reasoned decisions, effectively and diligently, in plain language.

13. OATH – Upon entering upon their duties, commissioners shall take the following oath: "I, ..., commissioner, do solemnly declare that I will exercise the powers and perform the duties of my position impartially and honestly, to the best of my ability and knowledge."

GOVERNMENT ACTION PLAN ON THE PROTECTION OF PERSONAL INFORMATION

An internal committee of the Régie de l'énergie, established pursuant to the *Government Action Plan on the Protection of Personal Information*, in accordance with the instructions received from the Assistant General Secretary of the Conseil exécutif responsible for this matter, continued its work during 2003-2004.

PUBLIC PARTICIPATION

INTERVENOR COSTS AWARDED BETWEEN APRIL 1, 2003 AND MARCH 31, 2004

Electricity	$1,491,774
Natural gas	$ 467,721
Petroleum products	$ 81,087
Total	$2,040,582

PAYMENT OF INTERVENORS' COSTS

The Régie may order the electricity carrier or any distributor of electricity or natural gas to pay, in whole or in part, expenses related to proceedings conducted under the Régie's authority. When the public interest warrants, the Régie may pay such costs for groups formed for the purpose of participating in its public hearings. The amount of the reimbursement is determined in accordance with the Act, the *Rules of Procedure* and the *Intervenor Costs Payment Guide*, adopted by the Régie in July 1999 and amended in October 2003 following generic hearings on the issue.

In 2003-2004, the Régie ordered the payment of intervenor costs totalling more than $2 million.

LIST OF INTERESTED PERSONS

- ABGG Technologies
- Action democratique du Quebec
- Alcan Energie Electrique, division de Alcan inc
- Association canadienne d'énergie éolienne
- Association coopérative d'économie familiale de l'Outaouais
- Association coopérative d'économie familiale de Québec
- Association de climatologie du Québec
- Association de l'industrie électrique du Québec
- Association des arénas du Québec Inc.
- Association des consommateurs industriels de gaz
- Association des gestionnaires de parcs immobiliers en milieu institutionnel
- Association des manufacturiers de bois de sciage du Québec
- Association des redistributeurs d'électricité du Québec
- Association des services de l'automobile du Québec
- Association québécoise de la production de l'énergie renouvelable
- Association québécoise de lutte contre la pollution atmosphérique
- Association québécoise des consommateurs industriels d'électricité
- Association québécoise des indépendants du pétrole
- Astrolab du Mont-Mégantic
- Beaule, François
- Beauregard, Lucien
- Benhaddadi, Mohamed / Guy Olivier
- Brascan Energie Marketing Inc.
- CAA-Québec
- Centre d'études réglementaires du Québec
- Centre Hélios
- Chagnon, Frédéric
- Chaouqi, Réda
- Charest, Louis
- Citoyennes et Citoyens vers Kyoto
- CLD Beauharnois-Salaberry
- Coalition pour la sécurité énergétique du Québec (ACRTGQ-AICQ-AIEQ)
- Comité environnement TCA Mauricie / Centre du Québec
- Compagnie Pétrolière Impériale Ltée
- Confédération des syndicats nationaux
- Conférence régionale des élus de la Gaspésie et des Îles-de-la-Madeleine
- Corporation de gestion intégrée de la ressource éolienne
- Costco Wholesale Canada Ltd
- Dagenais, Jacques
- Direct Energy Marketing Ltd.
- Énergie Nouveau Brunswick
- Enjeu Bois-de-Boulogne
- Ecycle Technologies Inc.
- Fédération canadienne de l'entreprise indépendante
- Fédération des commissions scolaires du Québec
- Fernand Dufresne Inc.
- Fiducie Great Lakes Hydro
- Franbec CDA Ltée
- Granules combustibles Energex Inc.
- Gazifère Inc.
- Gazoduc TransQuebec & Maritimes Inc.
- Grand Conseil des Cris (Eeyou Istchee) / Administration régionale crie et la Bande de Weskaganish
- Groupe Axor Inc.
- Groupe de recherche appliquée en macroécologie
- Groupe de simplicité volontaire de Québec
- Groupe STOP
- Heliotech Inc.
- Héritage Saint-Bernard
- Hydro Serre Mirabel Inc.
- Hydro-Québec
- ICI Design
- Independent Electricity Market Operator
- Institut canadien des produits pétroliers
- Institut de développement durable des Premières nations du Québec et du Labrador
- Intergaz
- Lamarche, Jean Laurier
- Langlois, Patrick
- Lasalle, Jean
- Leblanc, Me Brigitte A.
- Lévesque, Jean-François
- Le Conseil de l'industrie forestière du Québec
- Les Pétroles Irving Inc.
- Les Serres du Saint-Laurent Inc.
- Les Serres Nouvelles Cultures Inc.
- Les Serres Sagami (2000) Inc.
- Moteurs Novalia 2000 et VIV Engines
- Manufacturiers et exportateurs du Québec
- Mouvement au courant
- Négawatts Production Inc.
- New York Power Authority
- Ontario Power Generation
- Option Consommateurs
- Pageau, Yvon
- Parti Vert du Québec
- Petro-Canada
- PG&E National Energy Group Inc.
- Régie régionale de la santé et des services sociaux de Montréal-Centre
- Regroupement des comités logement et associations de locataires du Québec
- Regroupement des organismes environnementaux en énergie
- Regroupement national des Conseils régionaux de l'environnement du Québec
- Regroupement pour la responsabilité sociale des entreprises
- Renaud, Stéphane
- Séchoirs Arbec Inc.
- Sécurad Inc.
- Service de consultants en bâtiments Inc.
- Shell Canada Limitee
- Societe en commandite Gaz Metro
- Stratégies énergétiques
- Syndicat des producteurs en serre du Québec
- Systèmes Ándro Inc.
- Technik-Eaucan Inc.
- TransCanada Energy Ltd
- Ultramar Ltée
- Union des consommateurs
- Union des municipalités du Québec
- Union des producteurs agricoles
- Union pour le développement durable
- Ville de Beauharnois
- Ville de Saint-Jérome

FINANCIAL SUMMARY

RÉGIE FINANCIAL SUMMARY

The Régie's estimated financial results for the fiscal year ended March 31, 2004 are as follows:

Opening accumulated surplus	$ 978,974
Revenues	$ 8,609,967
Expenses	$ 8,372,922
Ending accumulated surplus	$ 1,216,019

OTHER INFORMATION

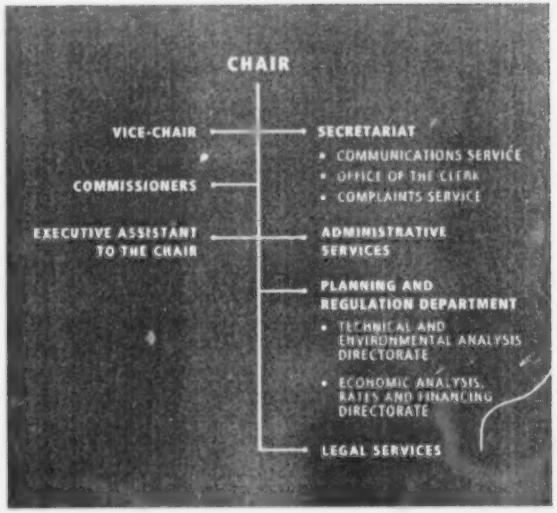
Revenues for the fiscal year ended March 31, 2004 consist primarily of the duties paid by Hydro-Québec and distributors of electricity, natural gas and petroleum products, in accordance with section 102 of the *Act respecting the Régie de l'énergie*. Pursuant to section 107 of the Act, any amount by which revenues exceed expenditures in a fiscal year is carried over to the subsequent annual budget, reducing the duties payable during the following fiscal year. The projected accumulated surplus for 2003-2004 will be taken into account in calculating the duties payable in 2004-2005.

In accordance with section 106 of the Act and Order-in-Council 73-98 (effective January 21, 1998), the Régie's budget forecasts for fiscal 2003-2004 were submitted to the Government on January 27, 2003 and approved by Order-in-Council 754-2003 of July 16, 2003.

RÉGIE EXPENDITURES PER GIGAJOULE AND PER CONSUMER

Years	**Régie expenditures**	Expenditures per gigajoule[1]	Expenditures per consumer[2]
2003-2004	**$8,372,922**	0.0064	1.1149
2002-2003	**$7,913,091**	0.0065	1.0614
2001-2002	**$7,585,800**	0.0064	1.0237
2000-2001	**$7,347,882**	0.0060	0.9960
1999-2000	**$6,766,764**	0.0057	0.9207
1998-1999	**$6,676,865**	0.0057	0.9117

1. Expenses distributed among electricity, natural gas, gasoline and diesel fuel consumption in Québec.
2. Expenses distributed among the population of Québec. (Source: Statistics Canada).



For more information on the Régie, its people, its accomplishments and upcoming cases, see the interactive annual report on the Régie web site.

Full information on the cases currently before the Régie is also posted on the web site. Our site has therefore become an indispensable reference for anyone interested in energy issues.

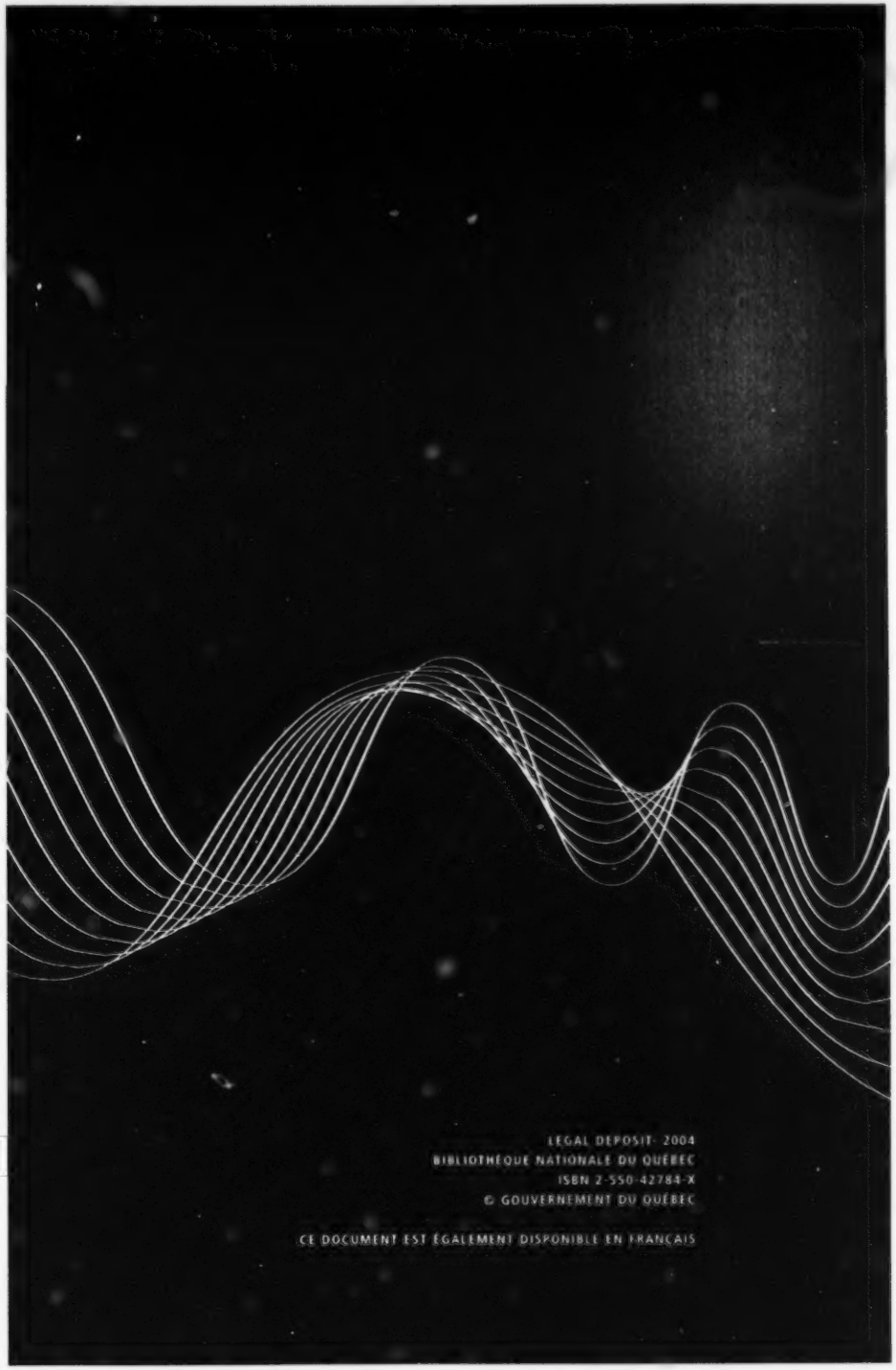
www.regie-energie.qc.ca

MONTRÉAL
HEAD OFFICE
RÉGIE DE L'ÉNERGIE
P.O.Box 001
Tour de la Bourse
800, Place Victoria
Suite 2.55
Montréal (Québec)
H4Z 1A2
Telephone : (514) 873-2452
Fax : (514) 873-2070
Toll free : 1 888 873-2452

QUÉBEC CITY OFFICE
RÉGIE DE L'ÉNERGIE
1200, Route de L'Église
Suite 3.10
Sainte-Foy (Québec)
G1V 5A4
Telephone : (418) 646-0970
Fax : (418) 646-1021
Toll free : 1 888 527-3443

www.regie-energie.qc.ca

Régie de l'énergie
Québec



LEGAL DEPOSIT- 2004
BIBLIOTHÈQUE NATIONALE DU QUÉBEC
ISBN 2-550-42784-X
© GOUVERNEMENT DU QUÉBEC

CE DOCUMENT EST ÉGALEMENT DISPONIBLE EN FRANÇAIS